

IDAHO FORECAST DESCRIPTION

The Forecast Period is the Second Quarter of 2007 through the Fourth Quarter of 2010

Idaho's economy is expected to prosper over the forecast period, but not as much as had been previously predicted. In April 2007, it was anticipated nonfarm employment would expand at a 2.4% annual clip over the 2007-2010 period. Idaho nonfarm employment advances at a 2.3% yearly pace over the same period in the July 2007 forecast. As a result of the more subdued growth, there are about 3,900 fewer jobs in 2010 in the current forecast versus the previous one. Likewise, Idaho personal income is down from its previous pace. Idaho nominal personal income is slated to average 6.3% over the forecast horizon, which is down slightly from the 6.5% pace that was forecasted in April 2007. The slower growth leaves Idaho nominal personal income in 2010 \$36 million below the April 2007 estimate. Some of this difference is due to higher inflation, so the gap between the two forecasts narrows when inflation is taken into account.

The major difference between the two forecasts is the current forecast includes the impact of Micron Technology's restructuring, while the previous forecast did not include it. As a result, the previous forecast showed Idaho computer and electronics employment would be relatively stable, dropping by just 325 jobs from 2006 to 2007. This summer Micron Technology announced it was immediately reducing its 11,000-person Idaho work force by 10%. The company also plans to reduce its payroll by another 5% later this summer. Taking this reduction into consideration, this sector's employment is now forecast to dip to 14,937 jobs in 2010, which is about 1,700 lower than its 2006 level. It should be pointed out that Micron's reduction will have a ripple effect on the economy. A reasonable estimate is that for every job lost at Micron, another one will be lost somewhere else in the economy. For example, assuming the company reduces its work force by 1,100 jobs, the statewide job lost will be about 2,200 when the dust settles.

It should also be noted that while the Micron Technology restructuring will dampen future employment growth, it will not stop it. Idaho nonfarm employment is forecast to rise from 638,902 jobs in 2006 to 698,348 jobs in 2010. This gain of over 59,000 jobs result after the impacts from the restructuring are included. Almost all of the gain is located in the state's enormous nongoods-producing sector. Indeed, it grows continuously over the forecast period because it is large enough to absorb the indirect impacts of the initial Micron Technology hit. Unfortunately, the goods-producing sector does not fare as well because the goods-producing sector is smaller and takes a direct hit from the layoff. As a result, this sector experiences declines in both 2007 (0.8%) and 2008 (3.4%). But the situation improves after next year; this sector is expected to resume growing after 2008.

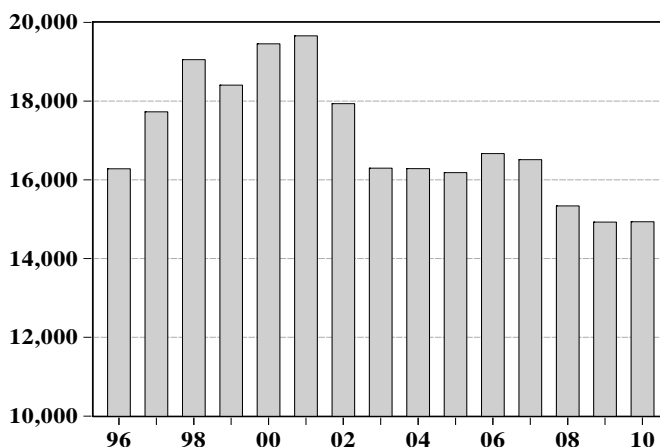
Idaho nominal personal income growth is projected to slow to about 5.6% in 2007 and 2008, but accelerate slightly thereafter. Idaho real personal income is forecast to display a similar pattern. Specifically, it rises 3.5% this year, 3.7% next year, 4.6% in 2009, and 5.5% in 2010. For the first time since 2000, Idaho real personal income growth is lower than its national counterpart in 2007. However, by 2008 it should once again out pace national income gains.

SELECTED IDAHO ECONOMIC INDICATORS

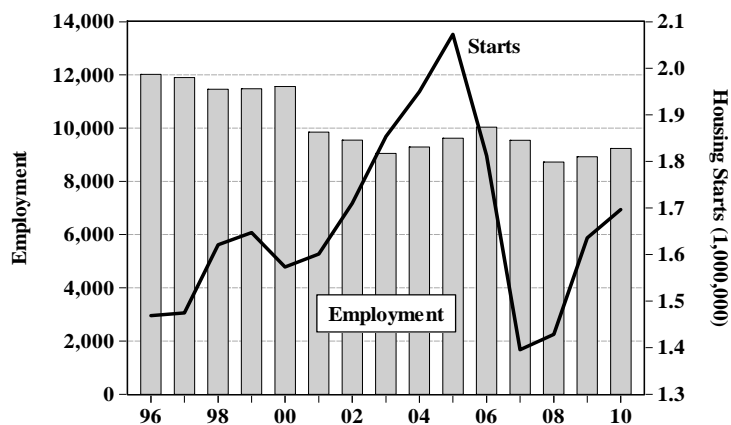
Computer and Electronics: Idaho's high-tech sector was dealt a major blow when Micron Technology permanently laid off approximately 10% of its 11,000-person local work force and announced it would cut another 5% later this summer. Company officials stated this move is an attempt to restructure its operations in order to reduce production costs. The need for costs savings became immediate due to the recent collapse of memory product prices that led to a \$225 million loss for the company in its third quarter that ended on March 31, 2007. The company reported a glut of products on the global market dropped prices for DRAM 35% and NAND Flash products 30% from the previous

quarter. This marks the second time this decade Micron Technology has reduced its Idaho payroll. The company let go of about 1,000 workers in early 2003. Micron is the state's largest private employer, so the impact of the latest reduction will be felt beyond the company's gates. A reasonable estimate is each Micron job lost will eventually result in another job lost elsewhere in the economy. It should be pointed out that the recent high-tech news is not all bad. Hoku Materials began building its polysilicon production plant in Pocatello. Polysilicon is used by the solar market. The plant is expected to be completed in the second half of 2008 and commence shipping its products in the first half of 2009. It is estimated the plant will employ 200 employees by the late summer or early fall of 2008. It should also be pointed out the high-tech sector should be aided by the anticipated national business investment recovery. Unfortunately, these factors are not robust enough to prevent the state's largest manufacturing sector from suffering job losses during this challenging period. Idaho computer and electronics manufacturing employment will shrink from 16,664 jobs in 2006 to just under 15,000 jobs in 2010.

Idaho Computer and Electronic Products Employment



Idaho Wood Product Employment and U.S. Housing Starts



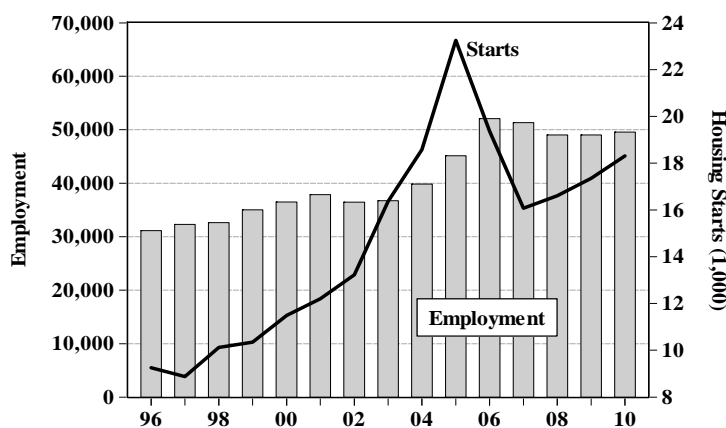
Logging and Wood Products: The fallout from the retreating U.S. housing market has already impacted Idaho's lumber and wood products sector. Employment in this sector began dropping in the third quarter of 2006. Interestingly, the sting of the declining housing market arrived sooner than the gain from the soaring housing market. National housing data show the number of starts began to take off in 2002 and peaked at 2.07 million units in 2005. National wood production expanded 11.1% over this same period. Despite these strong conditions, the Gem State's lumber and wood products sector shed about 800 jobs from 2001

to 2003. Its first year-over-year job gain was delayed until 2004, and it peaked at around 10,200 jobs in the second quarter of 2006. In contrast, Idaho lumber and wood products employment began falling just one quarter after U.S. housing starts began their current descent. As the demand-side boost from the housing sector ebbs, this sector will once again succumb to the structural supply forces that led to a downward employment trend. The biggest challenge Idaho's lumber and wood products sector faces is the dwindling timber supply from public forests. The U.S. Forest Service estimates over the ten-year period from 1994 to 2004 the harvest from Idaho national forests fell by two-thirds, from 429.7 million board feet to 143.3 million board feet. This decline represents a significant resource loss to the state. Specifically, national forests' share of Idaho's timber harvest shrank from 28.5% in 1994 to 12.3% in 2004. This decline resulted in the closure of several mills around the state. Ironically, these closings have increased the lumber and wood products sector's overall efficiency. As a result, fewer workers will be needed in the future. Despite the industry's downsizing, excess capacity remains a challenge. Strong markets in the 1990s led to heavy capital investment in this sector. As a result, it is estimated the industry can produce 20% to 25% more lumber than is being consumed in North America. These factors suggest future employment is not expected to approach its recent peak. Specifically, it is forecast there will be 9,547 jobs in 2007, 8,730 jobs in 2008, 8,928 jobs in 2009, and 9,242 jobs in 2010.

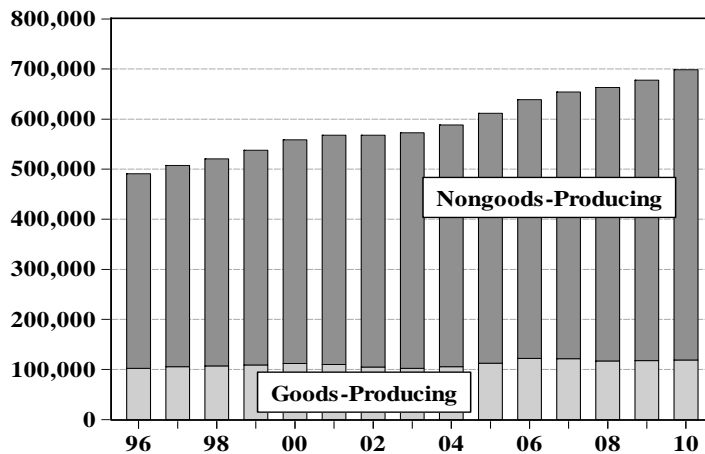
Construction: After several years of spectacular growth, Idaho construction employment is expected to decline this year and next year and flatten in the final two years of the forecast. The construction sector's most recent employment run up began in 2003, when fueled by a jump in local housing starts, it grew 0.7%. Continued strong housing starts caused job growth to accelerate rapidly after that year, reaching 15.4% in 2006. This sector's growth averaged 9.3% from 2002 to 2006. In comparison, Idaho total nonfarm employment grew at a 3.0% annual pace over this same period. Thus, this sector has been an

integral part of Idaho's recent economic success. Unfortunately, the anticipated cooling of the Idaho housing sector does not bode well for future construction job growth. Indeed, housing has already turned south. Idaho housing starts have been on downward trend for a couple of years. Estimates based on Idaho housing permit data show starts peaked at 24,505 units in the third quarter of 2005 and fell to about 16,500 units in this year's first quarter. Employment has managed to avoid reductions so far thanks in part to nonresidential construction spending, but rising pressures from falling housing starts portend future job declines. The first in a string of job reductions is predicted to come in the second quarter of this year. When the dust settles in 2009, Idaho construction employment's forecasted nadir is about 49,000 jobs, or about 3,000 lower than its 2006 zenith. Idaho housing starts is anticipated to drop to about 16,100 units in 2007 then gradually rise to around 18,300 units in 2010. While these levels of construction employment and housing starts may pale compared to their respective peaks, they are still relatively high compared to history. For example, at nearly 49,600 jobs in 2010, this sector's employment is almost 10.0% higher than the 45,145 jobs in 2005. Similarly, Idaho housing starts at 18,311 units in 2010 is 44.2% higher than the historical average of 12,700 units.

Idaho Construction Employment and Housing Starts



Idaho Nonfarm Employment



Nongoods-Producing

Industries:

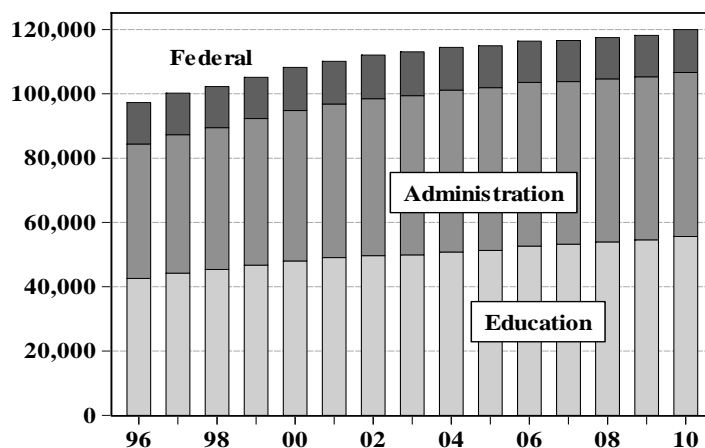
Idaho's largest private employment sector, nongoods, will also be its fastest growing sector over the forecast period. Its importance should come as no surprise given its huge size. It accounted for roughly two-thirds of last year's job gain. Industries in this sector can be divided into two broad categories: services and trade. The services category, with 292,726 employees in 2006, is the larger of the two. There were 107,466 trade jobs in Idaho last year. The services category consists of information services; financial activities, transportation, warehousing, and utilities; professional and business

services; education and health services; leisure and hospitality services; and other services. Trade is divided into retail and wholesale categories. Services employment has traditionally been the faster growing of the categories, advancing an average of 3.2% annually over the last five years versus 1.8% for trade employment. One of the services category's strongest performers is professional and business services. This category's employment should expand an average of 3.8% per year over the next four years. Other strong performers include education and health services and leisure and hospitality services. An interesting trait of the former is that it is driven more by demographics than economics, so it is relatively immune to business cycle swings. This category should add jobs at a 3.3% average annual pace over the forecast period. Financial services employment will feel the impact of the cooling local housing market. After expanding by an average of around 6.5% in both 2005 and 2006 as the housing sector boomed, its job base will expand by about half that pace over the forecast period. The transportation, warehousing, and utilities sector also enjoyed healthy growth in 2005 and 2006. The number of jobs in this sector should increase another 3.7% this year, but it will stall thereafter because of housing sector woes. Not all sectors will suffer this fate, however. The leisure and hospitality category will expand at a 3.8% rate, despite relatively high gasoline prices this summer. Information service employment should rise at a 2.5% annual pace. The other services category includes call centers such as Dial 411's new operation that has begun hiring in the Meridian area. Its payroll could reach 300 jobs within its first year of operation. Employment in the other services category is projected to accelerate over the forecast period. The trade sector's employment should grow an average of 3.9% per year, with its retail component growing slightly faster (4.0%) than its wholesale piece (3.5%).

Government: Idaho state and local government employment is expected to grow slower than its national counterpart during the first three years of the forecast, even though the Gem State's population is projected to expand faster than the U.S. population. The role of population in driving government employment can be seen by reviewing historical data. From 1991 to 2000, Idaho's population increased by 24.8%, or about 2.5% per year. Idaho state and local government advanced by 3.0% per year during the same period to meet the demands of the booming population. Population growth cooled in the first part of the current decade and so did government employment. Specifically, from 1999 to 2004 population growth slowed to a 1.7% annual pace, while government employment's annual clip decreased to 1.9%. Idaho's population growth seems to have gotten its second wind during this decade's second half; it jumped to over 2.5% growth in both 2005 and 2006. As with past surges, the population gain over these two years was due to an inflow of new residents. Idaho net immigration averaged 11,728 during 2000 to 2004. There were over 24,000 new residents in both 2005 and 2006. The current forecast

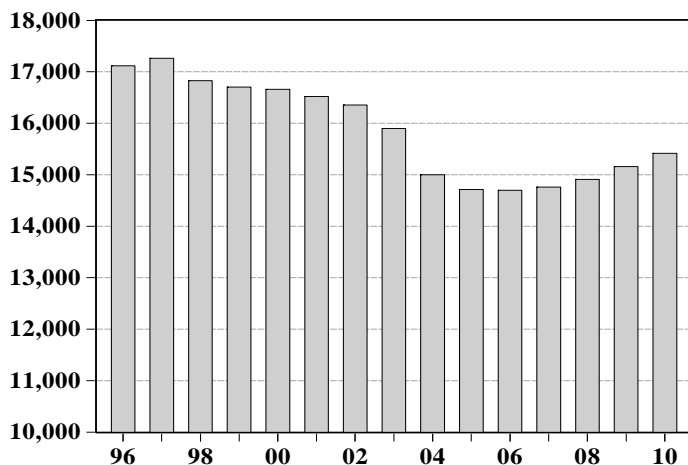
assumes immigration will ease back from these levels over the next few years. As a result, Idaho's population is projected to expand 2.1% annually over the next four years. Likewise, Idaho state and local employment growth is forecast to slow after peaking in 2006 at 1.6%. This sector can be broken out into two major components: education and noneducation employment. Education employment should grow about 1.4%, versus noneducation's 0.1% forecasted annual rate. Federal government employment in Idaho is forecast to grow 0.9% annually. However, almost all of this increase results from hiring for the 2010 census. Indeed, when 2010 is excluded, federal government employment in Idaho actually shrinks by about 25 jobs. The slower federal job pace in these years reflects anticipated future federal budget austerity measures. The U.S. Air Force has accelerated its plans for Mountain Home Air Force Base per the Base Realignment and Closure Act of 2005. The original plan was to replace the base's F-16J fighters with F-15Es between 2009 and 2011. However, the first F-15Es have already been transferred to the base, with the rest expected to arrive by the fall. It is estimated 400 jobs will eventually be lost due to this change. The current forecast does not include this impact because the actual number of jobs that will be lost and the timetable of these losses have not been finalized. The impact will be included as more information becomes available.

Idaho Government Employment



Mining: After expanding over the last few years, Idaho mining employment is forecast to gradually decline as the U.S. economy cools. Rising metal prices helped mining employment increase from 1,758 to 2,375 from 2002 to 2006. The spot price of silver more than doubled from \$4.60 per ounce in 2002 to \$11.62 per ounce in 2006. According to the U.S. Department of Labor, the wholesale price index (WPI) for metals and metal products jumped 44.4% over the same period. The price surge rekindled an interest in the state's mining industry. The Idaho Department of Commerce and Labor recently reported that Hecla Mining is considering a capital outlay of up to \$200 million at its Lucky Friday Mine near Mullan. This investment could boost its silver production by 80%. In addition, Hecla Mining is contemplating the potential for new mines in Idaho's Silver Valley because it believes the Silver Valley is one of the most under-explored silver mining districts in the country. The Coeur and Galena mines were purchased last summer by U.S. Silver Corp. The company plans to spend \$1.5 million this year to restart the ore-processing mill at the Coeur Mine and explore for silver and lead ore. The mine has been closed for a decade. The Galena Mine and mill were operating at the time they were purchased and employ about 140 workers. Timberline Resources plans to begin exploration drilling at its Snowstorm Mine. Sterling Mining Co. recently revitalized the boilers and steam heating distribution system at the historic Sunshine Mine and is currently renovating its ore-processing facilities. The company expects to commence processing ore late this year or early next year. However, future employment gains will be shaped by the expectation of smaller price gains. It is forecast the WPI for metal and metal products will grow 11.8% from 2006 to 2010, which is much slower than in the previous period. This subtle increase reflects a more even balance between the demand and supply of metals. As a result, Idaho mining employment will retreat from 2,507 in 2007 to 2,141 jobs in 2010.

Idaho Food Processing Employment



Food Processing: Food processing remains one of the state's cornerstone industries. While it is no longer Idaho's largest manufacturing employer, its role in the state's economy cannot be overstated. Its importance can be measured both in terms of employment and output. According to Idaho Department of Commerce and Labor data, this sector had 14,699 jobs in 2006, making it the state's second largest manufacturing employer. The computer and electronics manufacturing sector is the largest with 16,664 jobs. The value of food manufacturing output accounted for more than half (55.7%) of the total Idaho nondurable manufacturing output from 1997

to 2004 and about 2.6% of the state's total gross domestic product. While 2.6% of output may appear to be a small part of the economy, it masks the state's dependence on this sector. Its relative importance can be seen when it is compared to its national counterpart. Food processing accounted for just 1.6% of U.S. economic output. Clearly, Idaho's economy is more dependent on food processing than the nation. A similar argument can be made for employment. Food processing employment accounted for 2.3% of the state's nonfarm jobs in 2006, while it accounted for just 1.1% of national nonfarm employment. Like many manufacturing sectors, this industry has seen its share of hard times. For example, nearly 360 jobs were lost when unfavorable business conditions caused the J.R. Simplot Company to close its Nampa meat packing plant in the fall of 2003. In addition, the J.R. Simplot Company shuttered its Heyburn potato processing plant that was built in 1960 and since then had run continuously. More recently, the Swift and Company beef processing plant fell victim to the embargo of Canadian beef imports into the U.S. Concerns over mad cow disease restricted imports to animals under 30 months old. The Nampa plant processed older animals and was not able to get enough animals to keep operations viable. About 400 jobs were lost when the company closed the plant. However, recent news regarding the food processing sector has been promising, suggesting its employment is ripe for expansion. Some of this growth will come from plants that had been shuttered. The Nampa meat processing plant has been reopened by XL Foods, Inc. It is anticipated that it will replace all the jobs lost from Swift's closure once the plant is running at full capacity. Gossner Foods, Inc. opened a new cheese manufacturing plant in Heyburn on land formerly occupied by the J.R. Simplot plant. Brewster Dairy, Inc. has taken over the former Kraft plant in Rupert and plans to start production on November 1, 2007. Marathon Cheese is building a \$27-million plant in Mountain Home that will employ 250 workers. The plant's employment should climb to twice that many jobs in five years. Another new plant is High Desert Milk in Burley. When completed, this plant will employ 30 workers to manufacture powdered milk. After declining for nearly a decade, Idaho food processing employment is expected to stabilize then grow slowly. Specifically, the number of jobs is forecast to gradually increase from 14,699 in 2006 to 15,416 in 2010.